SmartMoney
It's your money. Be smart.

Published October 16, 2009

Put Off Retirement? No Way!

EVERY CAREER HAS its share of days you never forget. There are the early memories, such as getting that first paycheck, and milestones like scoring the big promotion or the morning you finally moved into the corner office. But for many people, there's one special day that stands head and shoulders above the rest: the last.

Whether it's marked by a year, an age or even a specific date, the promise of that first day of retirement is the beacon that guides people through the often daunting process of planning for their golden years. But now, with would-be retirees still dusting themselves off from the punch of last year's market crash and today's slow-to-recover economy, many are finding that their beacon has disappeared-or at least relocated. In fact, a recent study by gerontology research and consulting group Age Wave found boomers reporting that their retirement will need to be postponed an average of 3.6 years. And with retirement accounts losing $3.7 trillion-42 percent of their value-during the crash, the idea that the average American could still expect an on-time arrival at the next phase of their life seems little more than fantasy.

But there are no delays in sight for Ira Marks. Yes, he watched his portfolio drop 30 percent from peak to trough in the crash. And yes, the housing downturn has hammered his commercial real estate brokerage. But Marks still says he's on track to retire in less than five years-a bit earlier than originally planned, actually. His strategy for staying on schedule is simple: Change everything else. In the past several months, the Floridian from Vero Beach has refinanced his home at a lower rate, cut back on spending and even started taking mediation classes, thinking he might dabble in the work to bring in extra income. He has also avoided the temptation to get more conservative with his investments, hoping the other tweaks will give his nest egg time to recover. "What goes down must come up," says Marks.

Although postponing retirement is a powerful tool (an additional year of work can boost annual investment income by about 7 percent, according to T. Rowe Price Associates, it's far from the only option for would-be retirees hoping to get their plans back on track. Clamping down on spending is one popular save-the-date strategy, which can include everything from eliminating luxuries like posh vacations and new cars to a wholesale downsizing that can land retirees in cheaper states-or even cheaper countries. Others are revising their plans to include a few hours of work, or adjusting their investing strategy to give themselves the best chances of recouping their losses down the road. And while no one thinks these changes will be easy, some experts say that they could ultimately lead to a happier, more fulfilled version of retirement. "Think of it as course correction," says Ken Dychtwald, founder and CEO of Age Wave.

So don't erase that magic date from your calendar just yet. To find the best ways to adjust your retirement strategy, we polled a range of planners and experts, and consulted with retirees and soon-to-bes who are out there living their postcrash contingency plans. Below, four paths for keeping your retirement time line in line.

Invest Boldly

Bill Rideout has never shied away from risk. The Salt Lake City attorney has taught Navy jet pilots, lived in nine states and launched a new career when he was 58. And when it came to his crash-weakened portfolio, his attitude was no different: full speed ahead. "You take a risk in the market like you take a risk when you get up in the morning," says Rideout. So when falling prices knocked his target allocation of 60 percent stocks down closer to 50 percent, he took a deep breath and bought more stocks. Since then, his portfolio has slowly made up ground, and Rideout is confident enough in its future that he just left the U.S. Department of the Interior to join his wife, Anne, in retirement. "You have to go with the flow," says the 63-year-old, "in life and in retirement planning."

Not bad advice. What's more, financial advisers say people who want to stand pat on their retirement date need to keep their assets in the market. But given the bumpy ride they've endured, it's no surprise that many seem to be ignoring such recommendations; a survey this year by McKinsey & Co. found that, of respondents who changed their portfolios because of the financial crisis, 62 percent report investing more conservatively or moving assets into cash. Not only does this strategy lock in losses, says Christine Fahlund, senior financial planner at T. Rowe Price, it all but eliminates the chances your nest egg will recover. Indeed, Fahlund recommends that people enter retirement with about 60 percent of their portfolio in stocks and continue to hold a big chunk of equities even into their 90s.

For people looking to bounce back without putting their retirement at risk, experts continue to recommend a diversified portfolio but encourage investors to seek out growth areas. "People shouldn't see it as a 'set it and forget it' enterprise," says Hans Olsen, chief investment officer for J.P. Morgan's private wealth management business. With some experts speculating that Asia will lead the economic recovery, international stocks can help boost portfolios. And the potential for future inflation has many advisers urging clients to invest in commodities, which fare well when purchasing power drops. The key to minimizing the riskiness of these bets, says Olsen, is to limit them to a small slice of your portfolio-no more than 8 percent for Asian emerging markets and 6 percent for commodities.

Another area retirees can tweak is the amount they withdraw from their portfolio each year. The usual rule of thumb is about 4 percent the first year, with adjustments for inflation each year thereafter. But since the crash, this one-size-fits-all formula may no longer apply. Fahlund suggests retirees keep withdrawals fixed, rather than factoring in inflation, and slowly trim their budgets to adapt. "Most of us can't do it overnight," she says. Some other advisers argue that withdrawal percentages can be bumped up to account for shrunken nest eggs. Jonathan Guyton of Cornerstone Wealth Advisors in Edina, Minn., recommends about 6 percent in a down market, provided retirees don't tap the equities portion of their portfolio until the market rebounds. The caveat, Guyton says, is that people must be prepared to make major spending cuts when necessary and be willing to rebalance in less than ideal times.

Spend Smarter

Of course, the simplest way to be sure your nest egg will last is to wait longer to tap it. Sure, everyone goes into their investments at some point-that's what they're for, after all-but more boomers are taking another look at their spending habits, hoping to postpone that day just a bit longer. A recent survey by the Employee Benefit Research Institute found that 81 percent of people who say they've lost confidence in their retirement security are reducing expenses this year. Many financial advisers say they've been increasingly helping clients identify areas to cut back too. Spencer Sherman of Sebastopol, Calif., provides his would-be retirees with a checklist that goes through their budget line by line, and he encourages them to try experiments like putting a month's worth of cash in an envelope and using only that to cover discretionary expenses. "Spending cash makes you think twice," he says.

When trimming spending on extras like shopping or dinners out isn't enough, more savvy retirees are finding ways to shrink so-called fixed expenses. Among the easiest to cut are utility bills, which make up about 7 percent of household spending. Just switching from regular to compact fluorescent lightbulbs, for instance, saves up to $50 in electricity costs over the life of each bulb, according to the Alliance to Save Energy, and installing a programmable thermostat shrinks usage up to 10 percent, netting the average household about $1,120 over five years. For those considering more substantial changes, some experts recommend an energy audit; though the consultation can cost several hundred dollars, homeowners who end up investing in energy-saving improvements can now take advantage of an increased tax credit of 30 percent of the cost, up to $1,500.

While obvious tweaks like choosing a used car over a new one or swapping a European getaway for a U.S. road trip can always cut spending, a bigger budget buster is something many of us take for granted: health care. For David Freund, health costs became a big enough issue to bump up his retirement date. As a lawyer at the Indiana State Public Defender's Office, he qualified for a state-funded health account that, in his case, was worth a cool $38,000. When rumors began to circulate that the state would end the program, Freund and his wife, Mary Liz, decided to get out while the getting was good. The program is still going, but Freund retired this spring and is now tapping the fund to cover part of the health insurance he shares with Mary Liz.

If that seems like a dramatic move, consider this: According to Fidelity Investments, a 65-year-old couple retiring this year will need about $240,000 to cover their medical expenses in retirement, a 50 percent increase since 2002. While the Freunds' state-sponsored account is unusual, there are more mainstream options. Those whose insurance plan has a high deductible (in 2010, anything from $2,400 on up for a family) qualify for a health savings account, which allows people to sock away money tax-free for heath-related expenses. The 2010 maximum HSA contribution level will be $6,150 for families, with consumers age 55 to 65 allowed an extra $1,000 a year. Flexible spending accounts are another tax-free option. Users forfeit any money that remains in their account at the end of each year, but according to Alexander Domaszewicz, a principal at HR consultancy Mercer, they can reduce the amount spent on qualifying expenses by 20 percent or more.

Redefine the Home

For Kurt and Susan Medert, both 63, the difference between sticking to their retirement time line and not has largely come down to their Bethesda, Md., condo. Despite opting to leave the workforce just as "the world fell apart," says Kurt, the couple is continuing with their plan; Kurt left his position with a trade show production company this spring. In part because they're still nervous about their portfolio, the Mederts have decided that when the time comes, they'll put the condo on the market and look for a place in Cincinnati, near Susan's parents. Not only will the move save on travel (Susan visits her family three times a year), but the relative health of Bethesda's real estate market should allow them to purchase a new home mortgage-free and still have a chunk left over to bolster their savings-and pay for that pool table Kurt has his eye on.

Housing often plays a key role in people's retirement plans, with nearly 80 percent of Americans 65 and older owning property. Relocating to a smaller, easier-to-maintain home is a popular move; of those planning to tap home equity in retirement, more than half say they plan to downsize, according to a survey by the Center for Retirement Research at Boston College. But it's not just about smaller maintenance bills. Choosing a community with a low cost of living can reduce the grocery tab, property taxes and everything in between. The Mederts' move could pay off on all fronts; according to Sperling's Best Places, which collects pricing data on locations throughout the U.S., the cost of living in Cincinnati is 63 percent less expensive than in Bethesda, with housing a whopping 88 percent more affordable.

Still, not everyone is ready to brave today's depressed-and depressing-real estate market. Plus, more than half of home-owners 55 to 64 still have a mortgage. For those still getting out from under this debt, refinancing is now a popular option. The average rate for a 30-year fixed-rate mortgage hit a record low earlier this year, and though rates are a moving target, that could mean lower payments for many households. Of course, the credit crunch has made this tougher than it used to be, so Greg McBride, senior financial analyst at Bankrate.com, suggests refinancing before retirement (lenders are comforted by monthly paychecks) and starting with your original lender, who knows your history. Refinancing works best for people planning to stay in their home for the foreseeable future, since it can take several years to make up the closing costs and start to see a payoff.

Work, Your Way

After finally tossing out their monthly commuter pass, the last thing most retirees want to consider is more work. But as the realities of today's economy-and ever-longer life spans-set in, more people realize that retirement doesn't necessarily mean the end of your paycheck years. In fact, a 2009 survey by the Employee Benefit Research Institute found that about 72 percent of workers say they expect to do some work for pay in retirement, up nine percentage points over last year. And while it's not the most glamorous option, it's the best bet for financial security. Having a part-time job that brings in $20,000 a year gives a retiree the equivalent of withdrawing 4 percent a year from $500,000 in savings. What's more, many retirees find that the extra income allows them to postpone taking Social Security, increasing the ultimate payout by about 8 percent a year, according to T. Rowe Price's Fahlund.

For Dick Horak, retiring at 62 was nonnegotiable. The Spearfish, S.D., resident says he settled on the date decades ago and never wavered. "It would just be too hard to back up on the plan," he says. But when his stock portfolio dropped 30 percent last year, he knew something had to give. So when his January D-day rolled around, Horak decided that rather than leave his architectural and engineering firm altogether, he would phase out slowly, selling his interest in the company but arranging to spend a handful of hours a week consulting. And to his surprise, the new setup accomplished everything that had made him so eager to retire in the first place: The stress of being a small-business owner vanished, and his new schedule left him and his wife, Linda, plenty of time to visit their five grandchildren.

Of those who decide the benefits are worth a few more years in the trenches, many follow Horak's model, keeping one foot in their old career with part-time or contract work. According to Scott Kane, founder of Gray Hair Management, a career-counseling firm for older workers, preretirees interested in this route are now in an especially good position for negotiating an arrangement with their employers, who may be looking for ways to cut costs without sacrificing talent. And for those looking for a change of scenery, the growing number of employers turning to contract workers may mean a wider range of opportunities.

Of course, there's always the "encore career." Unlike consulting or part-time work, this typically involves a new field (health care and "green" jobs are popular) and can last for years or even decades. But there are downsides: Starting a new venture can take time and training and, at least in the short-term, may mean smaller paychecks. Retirees who change careers typically see median wages drop more than 50 percent. Still, for some, the perks of trying out a brand-new gig are exactly what they need to take the sting out of returning to the workforce. For Ira Marks, the Vero Beach man preparing to swap real estate for mediation, the possibility of an encore job means the thrill of the new, a little extra spending money and a work schedule that sums up his ideal version of retirement: "You do as much as you want to and no more."

Original URL http://www.smartmoney.com/Personal-Finance/Retirement/Put-Off-Retirement-No-Way/